

World Pork Overview

U.S. Imports and Exports Are Forecast to Reach New Records in 2004.

World Summary: With the continuing uncertainties in international trade policy, global pork trade is forecast to decline slightly in 2004. World pork exports, projected to reach a record 4 million tons in 2003, are forecast to decrease by almost 2 percent next year. The anticipated growth in the North American market in 2004 is unlikely to offset weakening import demand in Japan, Russia and the EU. Competition among major exporters is expected to intensify, particularly in Japan where excess supplies of frozen pork appear likely. Brazilian exports meanwhile continue to grow. While Brazil has yet to negotiate full entry into the Japanese market, its sanitary concerns regarding outbreaks of pseudorabies have so far been contained. Most significantly, Brazilian efforts to reduce dependence on the Russian market appear to be gaining momentum. The possibility of a new framework within the Russian tariff-rate quota (TRQ) system could boost the outlook for U.S. pork exports. With the outcome of Mexico's anti-dumping investigation on U.S. pork is still pending, U.S. exports to the world are forecast to grow by less than 1 percent in 2004, a 14th year of consecutive growth.

Key Exporters:

- **United States:** U.S. pork production is forecast to increase by one half of 1 percent in 2004. Potential for growth in the U.S. herd will be augmented by imports of Canadian slaughter animals. The mandatory Country-of-Origin-Labeling (COOL) provision, under the U.S. Farm Security and Rural Investment Act of 2002, remains a complicating factor with its scheduled implementation date of September 30, 2004. Additionally, U.S. exporters are increasingly driven toward developing full traceability programs to satisfy market concerns about food safety. Mexico's anti-dumping investigation on U.S. pork continues to cast its large shadow on U.S. exports. While still the second largest market for U.S. pork, exports to Mexico declined by 7 percent during the first eight months of 2003. Japan continues to be the most significant importer of U.S. pork. While Japanese demand for U.S. fresh/chilled pork has fallen, U.S. exports of frozen pork, propelled by a favorable exchange rate relative to other suppliers, have sustained the recent U.S. growth in the Japanese market.
- **Canada:** The Canadian hog and pork sector has been hit by multiple incidents, affecting demand. Earlier in the year, an outbreak of the Sudden Acute Respiratory Syndrome (SARS) severely injured the Hotel and Restaurant Industry (HRI) in two of Canada's most populous cities. This was followed by the BSE situation, which suspended cattle and beef trade in May of 2003. Weakening consumer demand, due to falling beef prices, led to a decrease in Canadian slaughter and a diversion of slaughter hogs south to the United States. Canadian consumer demand for pork is expected to grow slowly in 2004. With the anticipated modest increase in herd size, 2004 pork production is forecast to increase by almost 2 percent. Canadian pork exports, which now account for about one half of total production, are estimated to reach almost 1 million tons in 2004, making Canada the world's largest pork exporter. The U.S. continues to be the major market for Canadian pork, absorbing

over half of Canada's pork exports. Elsewhere, growth in Canadian exports will be conditioned by Canada's continued competitiveness vis-à-vis other major exporters.

- **Brazil:** Brazilian pork production is forecast to increase by more than 2 percent in 2004. Feed costs, which can typically account for about 75 percent of total production costs, are projected to increase only very moderately, as the 2003/04 Crop Plan will continue to subsidize corn production. The potential of domestic pork consumption remains notoriously underdeveloped. Brazilians in the wealthier South consume more than 18 kg. of pork per person annually; their poorer cousins to the North consume about two-thirds less. Approximately 70 percent of Brazilian pork consumption is in processed form, which is more expensive, and puts pork at a price disadvantage relative to beef and poultry. Since 2000, Brazilian exports have grown 300 percent, from about 8 percent of total production to an anticipated 25 percent of production in 2004. Low production costs and extremely competitive exchange rates have favored Brazilian exports, particularly in the Russian market. After trade disruptions in early 2003, due to reported outbreaks of pseudorabies (Aujeszky's Disease), Brazilian exporters managed to regionalize disease status to the municipal level. Continuing efforts to insulate major exporting areas from repeated disruptions have enabled pork shipments to continue. Indeed, Brazil is again proving its ability to export not only to Russia, but also to other markets as well. During the first 6 months of 2003, Brazilian pork exports to Bulgaria, Hong Kong and Singapore have been particularly strong. Import demand from Argentina is also returning to pre-2002 levels.
- **European Union:** Lower beginning stocks and reduced sow numbers affect the outlook for 2004 production. Effects of the 2003 drought, particularly evident in France, prompted numerous producers to request assistance from the EU Commission. In several countries, pig numbers continue to decline, especially in Germany and the Netherlands where environmental constraints and animal welfare restrictions appear to discourage large-scale expansion. Nevertheless, sow productivity is expected to increase, pushing 2004 EU pork production up fractionally. Denmark, which currently accounts for more than half of all EU exports, continues to be a world leader in swine genetics, and is making significant large-scale investments in modernizing its processing capacity. After a projected decline of 16 percent in 2003, EU pork exports are forecast to decline further by 4 percent in 2004. The relative appreciation of the Euro, and a Russian TRQ system that has largely favored Brazil, places European exports at a clear disadvantage. Expansion of the EU, set for May 1, 2004, will add 10 countries and about 100 million people to the existing institutional framework. Over the long run, only two of the accession countries, Poland and Hungary, are expected to maintain a significant capacity for pork exports.

Key Importers:

- **United States:** During the first eight months of 2003, the United States imported over 335,000 tons of pork, an increase of over 15 percent from 2002. In 2004, U.S. pork imports are expected to follow this trend, growing by almost 10 percent to reach

an estimated 624,000 tons. U.S. consumer demand for pork loins, ribs and bellies remains strong, especially in light of higher beef prices. Imports from the EU, and especially from Canada, are increasing. However, U.S. imports will need to comply with COOL regulations as they take effect at the end of the third quarter of 2004. For further information on COOL, please refer to the following internet website: <http://www.ams.usda.gov/cool/>.

Japan: Japanese pork production continues to decline as retiring farmers leave the industry. During the last decade, pork production declined by about 10 percent, while the number of hog producers fell by a third. At the same time, Japan's total pork consumption grew by almost 9 percent, making Japan the world's largest pork importer. Although overall import demand remains relatively strong, Japan continues to protect its domestic pork market with a gate price system, which includes a special safeguard provision designed to trigger when quarterly imports exceed the average of the three previous corresponding quarters by 19 percent or more. On August 1, 2003, Japan imposed a safeguard duty on pork imports, which will remain in effect through March 31, 2004, the end of the Japanese fiscal year. The measure raises the gate price for carcass imports from 409 Yen to 510 Yen per kg (\$1.54 per lb to \$1.92 per lb), and the gate price for pork meat cuts from 546 to 681 Yen per kg (\$2.05 per lb to \$2.56 per lb). For 2004, Japanese pork imports are expected to remain at the 2003 level, as Japan consumes existing supplies of frozen pork. Anticipated lower prices for fresh/chilled domestic pork will further disadvantage imports.

- **Hong Kong:** Despite the disruptions related to the SARS outbreak in early 2003, Hong Kong's pork imports are expected to increase this year, and are projected remain strong. In 2004, pork imports are forecast at a record 283,000 tons, up about 1 percent from the projected 2003 level. Escalating beef prices could further boost pork demand, especially as consumers in Hong Kong have become more receptive to frozen products available in retail supermarkets. Imports from China continue to increase, particularly now that the Chinese government allows more than one agent to market its meat in Hong Kong. Brazil has emerged as the second largest supplier, and now accounts for about 20 percent of the import market. The USDA forecast for Hong Kong does not include re-exports. It is currently estimated that 19 percent of Hong Kong's reported pork imports are re-exported, primarily to China. The re-export trade however appears to be declining, as more and more shipments are going directly into northern China instead of through Hong Kong.
- **Mexico:** Pork imports for 2004 are forecast at a record 345,000 tons, up 3 percent from the estimated 2003 level. Although NAFTA provisions have eliminated import tariffs and TRQs on pork, the Mexican pork industry continues to express its concerns regarding ham imports from the U.S. Meanwhile, pork imports from Canada appear to be on the rise. During the first six months of 2003, Mexican pork imports from Canada were 55 percent higher compared to a year earlier. Fueled by increasing incomes, growth in Mexican pork consumption is expected to continue in 2004.
- **Russia:** With the TRQ system covering pork under HS code 0203 (fresh and frozen pork), Russian imports are projected to decline by 25 percent in 2003. This trend is expected to continue in 2004, as the Russian pork industry works to rebuild domestic

production. Russian imports for 2004 are forecast at 530,000 tons. In the last three years, Brazilian pork has managed to capture the lion's share of the Russian market. Brazil, which now accounts for almost 54 percent of Russian pork imports, has maintained its competitiveness through lower production costs, effective marketing, and a very favorable exchange rate. China's share of the Russian market has also been increasing. The proximity of major Chinese pork producing areas, with easy access to ports in Jiangsu, ensures a steady trade to the Russian Far East. Other major pork exporters are keenly interested in the future direction of the Russian TRQ system. The possibility of insufficient domestic production, coupled with adjustments in the trading relationship with new EU accession countries, could spark significant increases in price.

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